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IMPLEMENTATION OF THE COMMITMENTS AND POLICIES AGREED UPON IN THE DECLARATION ON INTERNATIONAL ECONOMIC COOPERATION, IN PARTICULAR THE REVITALIZATION OF THE ECONOMIC GROWTH AND DEVELOPMENT OF THE DEVELOPING COUNTRIES

Letter dated 25 April 1991 from the Permanent Representative of Argentina to the United Nations addressed to the Secretary-General

I have the honour to enclose information relating to the implementation of paragraphs 21, 23 and 24 (national level); 34 (regional level); and 32 and 33 (global level) of the Declaration referred to in General Assembly resolution 45/234.

I should be grateful if you would have this letter and its annex circulated as a document of the General Assembly under item 90 of the preliminary list.

(Signed) Jorge A. VASQUEZ
Ambassador
Permanent Representative

* A/46/50.

ANNEX

REPORT ON ARGENTINA'S ACHIEVEMENTS OVER THE PAST YEAR IN RELATION TO GROWTH AND COOPERATION AT THE NATIONAL, REGIONAL AND GLOBAL LEVELS

I. NATIONAL LEVEL

The economic policy guidelines in force over the past year have given priority to stabilizing the main economic variables, as a prerequisite for any attempt at reactivation and growth, through an anti-inflation scheme which has unconventional features, but places strong emphasis on the need for structural changes, above all in the public sector.

The option selected, while it has had negative effects on the level of activity (for reasons detailed below), is more than understandable bearing in mind that the preceding period had been one of hyper-inflation, with average variations in the consumer price index of 80 per cent a month in the first three months of the year.

Priority was given to stability to such an extent that the current convertibility plan can be taken as the logical corollary of a series of measures which, in broad outline, comprised:

(a) Reform of the State through policies of privatization of public enterprises and reduction of expenditure by the central administration, making use in the first case of mechanisms for capitalizing the external debt and in the second case of rationalization plans;

(b) Elimination of subsidies and privileges in economic activity so as to promote resource allocation in line with market-indicated priorities while ensuring greater transparency;

(c) Strict monetary control in order to prevent Treasury imbalances being compensated through the Central Bank;

(d) Opening up of the economy to outside competition in line with what is stated in subparagraph (b) above, both with a view to improving the terms of competitiveness and as an anti-inflation mechanism to curb unjustified price increases in highly monopolistic sectors;

(e) Opening up of the energy sector to foreign investment, particularly through public tendering for the major areas, as in the case of oil, and the natural gas networks;

(f) With respect to exchange policy, a scheme of the free-exchange type was in force throughout the greater part of the year, with the Central Bank intervening in a supplementary mode; for reasons many of which are beyond the control of the monetary authority and which are explained below, this led to a

drop in the exchange rate which nevertheless did not ultimately have the same effects as similar experiments in the past.

With regard to reform of the State, the speed with which the Aerolíneas Argentinas and Entel companies were sold off was in large measure a consequence of the crisis in the public sector, given the latter's inability to finance the investment required to ensure efficient provision of service.

Measures of this type generally have relatively immediate macroeconomic effects, both because of their fiscal implications and with respect to the external sector.

In the first place, in transferring the service to private activity, the National Treasury discontinues its support for the recurring operating deficits of these enterprises, thus releasing credit resources to the private sector (by reducing crowding out) or decreasing inflation, depending on the financing mechanism selected by the economic authority.

In addition, the investments mentioned in the first paragraph customarily have a dynamizing effect on economic activity, thus helping to close the fiscal gap.

Where the external sector is concerned, the sale of public enterprises by capitalizing external debt bonds makes it possible substantially to reduce the debt without additional foreign-currency expenditure, thus reducing the impact of indebtedness on the instability of the exchange market and improving the possibilities of access to new loans.

Likewise, Argentina firmly intends (especially after the Convertibility Plan) to qualify for the Brady Plan, conditions for which are a balanced domestic budget and the maintenance of a minimum but sustained flow of payments.

For 1991, Argentina's foreign-currency payments (Bonex, IMF, the World Bank, the Paris Club and the Inter-American Development Bank) amount in all to disbursements of the order of $3,850 million, not including payments to commercial banks. Bearing in mind that Argentina's total debt is of the order of $63 billion, the amount eligible for the Brady Plan is $36 billion, or $29 billion if $7 billion for the privatization of Entel, Aerolíneas and Petroquímicas are disregarded.

If Argentina qualifies, these $29 billion could be reduced by some 50 per cent as a result of the application of the various options offered to the banks (debt for equity swaps at par or at a discount, repurchase of the debt on the secondary market and, less probably, restructuring of old debt through inputs of new money) which in Argentina's case would, because of the low rates, reduce debt service payments, thus ultimately alleviating the delicate financial situation.

Nevertheless, given that in order to qualify Argentina would have to make a still greater adjustment this year, its entry into the Brady Plan will probably still not be immediate, since some of the debt reduction mechanisms (such as financing of investment projects through debt capitalization) are clearly monetarily expansive and incompatible with the current convertibility scheme. Moreover, the sale of physical assets against debt is a temporary mechanism for easing the financial situation, but excessive resort to it might postpone the real adjustment, which will entail (and this is the current administration's understanding) an effective rescaling of the State's functions.

With the passing of the Economic Emergency Act (Act No. 23.697) the industrial promotion regimes were suspended; this system had made it possible to locate industrial parks in areas traditionally marginalized from the industrial development process, in many cases generating substantial increases both in the level of employment and in the volume of local production.

Nevertheless, a prolongation of these schemes, which are essentially temporary in that their economic purpose is to promote a "nascent" or "infant" industry, would result in a series of imbalances (from the standpoint of resource allocation), both because of the burdensome financial cost and because of the low level of competitiveness attained by the industries being promoted.

Likewise, the Economic Emergency Act comprises a broad range of measures aimed at stimulating production, among which mention should be made of the one designed to ensure equality of treatment for national and foreign capital which involves risk investment, and also waives the provisions of Act 21.382 and supplementary legislation requiring the prior consent of the National Executive or the competent authority for foreign capital investment in the country.

Monetary policy played a relevant role in the general context described above, in that the authorities were firmly resolved not to confirm price increases (by increasing supply) and not to provide support either for the national treasury or for the provincial exchequers.

While, as was to be expected, some deviations occurred, above all at the end of the period and in cases of emergency situations in the provinces, as long as a certain amount of monetary discipline existed the price index showed a clear falling trend, to the point where the monthly variation rates in the consumer price index from April 1990 to January 1991 were for the most part slightly over 10 per cent, and from October onwards in only single-digit figures.

As a result, a certain amount of increase in the money supply was possible, and this, added to the increase in revenue (as a result of the fall in prices) led for the first time in years to Treasury operating surpluses.

Even bearing in mind that these did not allow for the cost of servicing the public debt, the improvement in the financial situation made it possible to increase reserves by purchasing part of the foreign trade surplus, without this having a major effect on price levels or on the exchange rate.

Where the public debt is concerned, it should be recalled that following the Bonex plan at the beginning of the year, which involved a forced conversion of the $7 billion of the debt that was periodically being renewed by the State with the financial sector), the Treasury cash flow showed a sufficiently improved picture.

Although the coercive aspects of the measure and its regressive effect on small savers may be held against it, the context in which it was taken and the available alternatives need to be taken into account.

In this latter connection, the options were to continue financing the country through debt, and ultimately to continue penalizing the production sector, or to undertake a major currency issue with a still more regressive effect than that of the Bonex plan, and it was therefore difficult to avoid an inflationary impact on the low-income sectors.

The successive measures taken with a view to opening up the economy were aimed not only at gradually reducing tariff levels, but also at simplifying the system, to the point where there are currently only three clearly production-oriented tariff levels in force; tariffs are progressive in terms of added value, the highest tariff figure being 22 per cent for finished goods, with 11 per cent for intermediate goods and 0 per cent for inputs. The specific duties for sectors which, like electronic products, enjoyed extremely high protection and a special promotion regime involving tax exemptions, have also been abolished.

Success in opening up the economy is also closely linked to what can be done in relation to labour deregulation, given that Argentine legislation in this area entails costs which, under a scheme such as that described in the foregoing paragraphs, leave national industry in a clearly disadvantageous situation vis-à-vis outside competition which in turn discourages foreign risk investment.

Throughout the greater part of 1990, the exchange policy was a key variable in explaining both the imbalances which affected the relative price stability achieved throughout a good part of the period and the reasons for recourse to the current convertibility scheme.

Free exchange was introduced in a scenario which had the following characteristics: a substantial trade surplus, an economy which was already strongly dollar-based at the level of economic agents, severe monetary stringency in order to avoid pressure both on prices and on the value of foreign exchange, and a context of widespread recession.

Consequently, it was to be expected that the exchange-rate slippage would last, both because of the over-supply of foreign currency (accentuated still further by the influx of capital taking advantage of the rate differential) and because of the low level of activity, which depressed demand for imports despite the fall in the exchange rate.

The resulting imbalance in the relative price structure was to some extent inevitable given that in Argentina assigning priority to short-term stability necessarily entails controlling the exchange rate. In turn, given that at the outset foreign exchange values are high (a "cushion" as in the present case), the success of the plan is tied to a fall in prices so that the real exchange rate can be maintained for a sufficient length of time at reasonably profitable levels.

When this does not happen, the set of factors described in the foregoing paragraphs normally results in a run on foreign exchange once the exchange-rate lag reaches critical values, with almost immediate effects on the level of prices. On this occasion, however, the monetary authority was able to avoid a substantial run by virtue of the considerable volume of reserves that had been accumulated as a result not only of the exchange rate lag but also of the Treasury surpluses.

Despite the achievements in the institutional sphere (the Economic Emergency Act, the reform of the State and the opening up of the economy, the balance for the tangible sector of the economy over the period was negative, in that investment was affected not only by the interest rates and the inadequacy of the loan periods, but also by the enormous uncertainty created by a dangerously low exchange rate.

Nevertheless, the stagnation of production is explained not only by economic factors, but also fundamentally by the extremely low levels of investment throughout the decade, to the point where, with the sole exception of one year, it was not even possible to replace the natural depreciation of the capital stock.

Likewise, if we take into account that there was no commensurate increase in consumption and that public investment continued to be relatively higher than private-sector investment, the difference, calculable as flight of capital, is a consequence of the lack of expectations on the part of the private sector.

The current convertibility scheme, which retains in many respects the philosophy of the measures listed at the beginning, leaves much less room for manoeuvre in the fiscal sphere, in that maintaining a given relationship between reserves and money supply makes it impossible to issue money (other than within a margin which still remains to be defined) except in cases where the issue is backed by reserves.

On the other hand, the obligation to balance the books is still stronger, given that on the income side the elimination of export taxes and of the specific duties makes rigid cash discipline essential.

Counterbalancing this on the income side, it is estimated that the tax reform, based on the general introduction of VAT, integration of the tax on assets with the profits tax, social security deductions at source, and some internal taxes such as those levied on consumption of fuel, tobacco, alcohol and luxury items, will provide around 20 per cent of gross domestic product.

Even so, it is clear that only growth can afford a sufficient condition for balancing the public deficit equation, since without a real increase in the taxable base, increasing the tax pressure in recessionary conditions leads only (as has happened in the case of Argentina) to greater evasion and to a decrease in the level of activity.

The new set of measures points clearly in this direction, for which purpose a key variable (once price stability is achieved) is the re-emergence of credit on terms more compatible with investment needs, to be brought about basically through a reduction in cash reserves and greater mobilization of savings in australes, with convertibility eliminating the exchange risk. On the other hand, since a good proportion of local savings is in dollars, and the freedom exists to conclude contracts in foreign currency, the expansion of credit may be even greater, provided that the cash reserves in both currencies are kept equal, so that the financial sector can act as an intermediary, avoiding arbitrage operations.

It should be pointed out that the success of the convertibility plan would inevitably lead to a restructuring of the Argentina financial system, in that if inflation rates comparable with international levels are achieved, only those banks whose efficiency is on the same level will be able to compete, given that single-digit annual inflation rates imply decreased spreads which in most cases (with the exception of the Foreign Bank and some major national banks) would not cover the costs of the majority of bodies in the system.

Similarly, mention may be made of the differential prices charged to industry for energy inputs (subject to satisfactory performance of tax obligations), of the new regime for free availability of foreign currency to exporters, and of the possibility the latter will have of obtaining reimbursement in australes and not in debt bonds.

It should be mentioned that within a little over a week after the plan's entry into effect, the behaviour of key variables such as the level of tax collection and money demand has exceeded the original forecast, and that price decreases have also taken place in some sectors. This last point is of vital importance, since with convertibility decreed by law, the margin for devaluation disappears (in essence, under this scheme, the Central Bank is virtually unable to make monetary policy), with the result that the success in controlling inflation, the levels of which are to be brought into line with international levels, is proving to be more than was actually necessary.

In launching the current convertibility plan, the Government is fully aware of the risks such a bold plan entails, but it is also aware of the urgent need to stabilize, with growth as the sole alternative for solving both the public-sector crisis and the chronic stagnation of the Argentine economy.

II. REGIONAL LEVEL

At this level, the process of integration with Brazil has in recent years become one of the priority issues in Argentina's foreign and trade policy.

The progress in this field, measured in terms of the growing volume of commercial exchange, was recently formalized by the signing on 6 July 1990 of the Buenos Aires Act, which provides that by 31 December 1994 the common market between the two countries should have been definitively established.

The instruments through which this important objective is to be achieved comprise basically:

(a) Tariffs:

A timetable for tariff reductions has been approved, starting from a minimum preference floor of 40 per cent, with a reduced list of exceptions, so that zero tariffs will progressively be reached by 1994;

(b) Protocols:

The system of protocols will be maintained as a means of comprehensively speeding up the process;

(c) Special treatment:

It has been agreed that certain sensitive sectors in both countries will receive differential treatment, as temporary exceptions requiring a more gradual approach;

(d) Coordination of macroeconomic policies:

Agreement has been reached on the need to harmonize policies with regard to exchange rates, monetary and fiscal policy, etc. This topic is of vital importance; among its obvious implications, it will suffice to mention only that one of the major objections that always existed to the feasibility of this process, on both sides, emphasized the impossibility of maintaining a continuous flow of trade given the two countries' monetary and exchange-rate unpredictability.

By way of example, suffice it to mention that Argentina, despite the exchange rate lag, exported considerable volumes to Brazil practically up until the end of the period under consideration, as a result of the neighbouring country's still greater slippage against foreign currencies.

With regard to the timing and specific activities for the attainment of the objectives and deadlines provided for in the Act in question, a working group entitled the Common Market Group has been established, within which in turn another 10 subgroups have been set up:

1. Trade matters

(a) Tariffs;

(b) Non-tariff restrictions;

(c) Drawback;

(d) Origin clause;

(e) Common external tariff;

2. Customs matters

From June this year, an Integrated Border Control System will be established.

3. Technical standards

(a) Technical standards

Classed under three major headings:

(i) Health and inspection of products of animal origin;

(ii) Plant health and inspection of plant products; and

(iii) Other food industry products;

(b) Harmonization of metrological standards

The parties undertook to analyse the issuance of transitional measures with a view to arriving at effective harmonization.

(c) Harmonization of metrological standards for disposable hygenic absorbents for external and intravaginal use, through the approval of joint technical regulations on the subject.

4. Trade-related fiscal and monetary policy

(a) Aspects of fiscal and monetary policy;

(b) Incentives to production, export and consumption.

5. Land transport

From 1 October 1991 onwards, transport between Argentina and Brazil will be liberalized, with the permissible carrying capacity being expanded in the meantime by 400 tractive units and 10,000 tons, and a simplification of the documentation required for international traffic has been decided upon.

6. Maritime transport

7. Industrial and technology policy

An information system has been established with a view to harmonizing legislation in the sector, and technical groups have been set up to analyse the possibility of increased industrial complementarity in the following sectors:

(a) Electronics;

(b) Oil;

(c) Petrochemicals and other branches of industrial chemistry;

(d) Textiles;

(e) Iron and steel;

(f) Agroindustry.

8. Agricultural policy

A working group will be responsible for analysing the elimination of subsidies and protectionist practices.

9. Energy policy

10. Coordination of macroeconomic policy

It has been agreed that progress will be made in:

(a) Harmonizing exchange and monetary policy;

(b) Trade policy and a common external tariff;

(c) Tax policy.

Other items:

(a) On 26 March the Mercosur Treaty was signed at Asunción, Paraguay, providing for the establishment of a Common Market between Uruguay, Argentina, Paraguay and Brazil. The mechanism for completing the establishment of a common economic space within four years is similar to that provided for in the Treaty signed between Argentina and Brazil, involving progressive tariff preferences until zero tariffs are arrived at, a common external tariff and lastly the coordination of macroeconomic policies;

(b) Latin American Integration Association (ALADI)

In the context of the unification as of 1 January 1991 of the various trade, economic complementarity and partial scope agreements signed between Argentina and Brazil, making up ACE 14, also known as the "Acordao", the first expansion of the preferences agreed upon in ACE 14 took place on 1 January this year;

(c) The motor vehicle sector

Trade amounting to $800 million in the motor vehicle sector was agreed upon, as against $120 million in 1990.

The instrument used for this purpose was Protocol 21: Motor Vehicle Industry, which had originally provided for trade amounting to $300 million in 1991. As a result of these talks, the parties decided to increase the $300 million limit for trade in parts, accessories and components in the sector in 1991 to $600 million.

In this respect, balanced programmes have already been submitted to the value of $550 million ($140 million for the spare-parts sector), of which $270 million were approved at this meeting, on the understanding that the remainder will be approved in the next few weeks. Another innovation of fundamental importance to the industrial integration of the motor vehicle sector is the inclusion of lorries among the items traded.

Bearing in the mind the prospects for economic integration and complementarity between the two countries, the Argentine sector has programmed the following investments for the period until 1994, some of which are already being implemented:

Assembly plants:

Autolatina:	$350 million
Sevel:	$180 million
Mercedes Benz:	$ 50 million
Renault:	$ 10 million
Scania:	$ 10 million

In addition, the following table gives an idea of the evolution of trade:

Year	Exports	Imports	Balance	Total Trade
1985	469	611	-115	1 107
1986	697	690	+7	1 388
1987	539	819	-280	1 358
1988	608	971	-363	1 579
1989	1 124	721	+403	1 845
1990	1 327	700	+627	2 027

These figures, the highest for the decade, show growing trade despite the severe restrictions on imports resulting from the adjustment plans in both countries.

It should also be emphasized that apart from agriculture and livestock products, products of industrial origin have increased their share, amounting in 1990 to 40 per cent of Argentine exports.

III. GLOBAL LEVEL

General Agreement on Tariffs and Trade (GATT)

1. During April 1991, Argentina signed the Agreement on implementation of Article VI (the Anti-Dumping Code), and it is also preparing to accede to the Agreement on interpretation and application of Articles VI, XVI and XXIII of the General Agreement (the Subsidies Code), approved in 1979 at the end of the Tokyo Round of Multilateral Trade Negotiations.

The purpose of accession to these codes is to contribute to Argentina's full integration into the rules governing the international trade system, preventing our exports being subjected in future to the abusive application of anti-dumping and countervailing duties, and providing our producers with a framework for protection against certain unfair trade practices on the part of some of our trading partners.

2. THE URUGUAY ROUND

During the past year, Argentina has participated actively in the Uruguay Round of multilateral trade negotiations under GATT.

Our country's main objective in these negotiations is to bring about liberalization of international trade in agriculture and livestock products by reducing domestic subsidies and export subsidies, and especially by eliminating the barriers to exports of Argentine origin.

Throughout the negotiations, a firm position has been maintained that unless significant results are achieved in respect of agriculture, Argentina, like other efficient producers of primary products of agricultural and livestock origin, will not be prepared to accept other results of the Round.

Argentina is also pursuing other objectives in the Uruguay Round, primarily through strengthening of what are known as the rules of competition (safeguards, countervailing and anti-dumping duties) and the GATT dispute resolution system.

The aim of these improved rules is to strengthen the multilateral trade system, so as to ensure that countries do not resort to unilateral measures to solve their trade disputes.

Emphasis should also be placed on the flexibility shown by Argentina in the sectors of interest to the developed countries, as apparent from the offers made in sectors of interest to this latter group. Among these mention should be made of the offers with regard to tariff reductions, the elimination of non-tariff barriers and the offer made in the negotiating group on services.